DECEMBER 2008 NEWSLETTER

Dear Client:

There have been ten new federal acts passed and signed within the last year, all with some tax provisions. Please read the following selected tax topics to be aware of before the end of 2008:

FEDERAL ITEMS OF INTEREST

Section 179 and Bonus Depreciation: Section 179 expense election increased to **$250,000 for 2008** (and goes down to **$133,000 in 2009**). Also, the expensing deduction doesn't begin to phase out until eligible property placed in service during the year exceeds $800,000 for 2008 (down to $530,000 for 2009), and the deduction is not prorated for the time that the asset is in service during the year. (Note, there are lower allowable expense deductions for various types of vehicle purchases and **Arizona still allows only a $25,000 maximum expense deduction**). **Bonus depreciation of 50% is allowed on most new purchases for 2008, unless elect out, and is not slated to be allowed beyond 2008.**

Alternative minimum tax (AMT): The **exemption amount is increased to $69,950 for joint returns and surviving spouses and $46,200 for single returns. There is a more generous refundable credit** of the greater of 50% of the long term unused minimum tax credit (MTC) or the AMT refundable credit amount for the preceding year. Any taxpayer who has any unused MTCs from 2004 forward should examine Form 8801 to make sure all credits have been accounted for in calculating the credit for 2008, if any. Also, **nonrefundable personal credits are now allowed for both AMT and regular tax purposes**. **The new AMT rules also abate all AMT tax outstanding on 10/03/2008, including penalties and interest, caused by incentive stock options in years prior to 2008, and the refundable credit is paid over two years.**

Plug-in electric drive vehicles: A new **credit is available from $2,500 to $7,500**, starting in 2008, until total of such vehicles sold in the U.S. go beyond 250,000 units.

First time home buyer credit: A **first time home buyer** (defined as anyone with no ownership in a principal residence in the U.S. for three years before the purchase), gets a **refundable credit** in the year of purchase up to the lesser **of $7,500 or 10% of the purchase price.** The credit **must be recaptured, interest free, over a 15 year period** beginning in the second year after purchase.

Sale of home exclusion change: For **any residence not used as or converted to a principal residence before 12/31/08, a new allocation method must be used to apply the $250,000 (single) or $500,000 (joint) gain exclusion** when the residence is later sold. **The periods of nonqualified use must be part of the calculation** (periods not used as a principal residence) **causing some of the gain to be taxable** when it is multiplied by the aggregate periods of nonqualified use over the period the home was owned by the taxpayer. **This new method replaces the 2 out of 5 year rule in effect to the end of 2008.** Call if you need details on this complicated new law change.

Mortgage forgiveness debt relief: **Cancellation of debt income is excluded from gross income** for discharge of **qualified principal residence indebtedness** (QPRI) **from 1/1/07 to 12/31/12,** with corresponding **basis reduction of the residence**.

The following is a list of certain tax breaks that have been extended into 2008 and beyond:

For individuals: The option to **deduct state and local sales and use taxes**; the **above-the-line deductions for qualified tuition expenses** and **educator expenses**; **the tax credit for Sect. 25D items such as solar hot water** and added credits for small wind energy property and geothermal heat pumps (the **tax credit for Sect. 25C qualifying energy saving improvements to a home is not available for 2008 but will be for 2009**); the **up to $100,000 annual exclusion from gross income for taxpayers age 70 ½ or older who make otherwise taxable distributions from an IRA (or a Roth IRA) directly to a qualifying charitable organization;** the **nonitemizers' additional standard deduction for State and local property taxes**.

For businesses: The **research tax credit**; **faster write-offs for leasehold and restaurant improvements** (expanded to cover new restaurant buildings and improvements if placed in service after 12/31/08 and before 1/1/10); **enhanced deductions for certain contributions to charity**.

Nondeductible IRA; possible tax strategy: In **2010**, anyone with **traditional IRAs can convert any amount from those IRAs to a Roth IRA without regard to the adjusted gross income limitation of $100,000.** The **converted amount is taxable over 2011 and 2012. But, if nondeductible IRAs are converted, some** of the converted amount will be **nontaxable.** It is easier to **contribute to a nondeductible IRA** (**there is no income limitation**), so it might be a **tax planning opportunity** to consider **making nondeductible IRAs from now until 2010** and **convert them in 2010**. The **less traditional IRAs and the more nondeductible IRAs you have by 2010 will make the converted amounts less taxable.** The formula is taking the total nondeductible IRAs converted over the total IRA balances (traditional plus nondeductible plus accumulated earnings) times the amount converted to determine the nontaxable amount. Call if you need details on this topic.

Charitable deductions reminder: Any contribution of cash, check or other monetary gift made after 8/17/06 **requires either a bank record or written communication** from the donee showing donee name, date and amount. There are further rules for contemporaneous receipts of single contributions of $250 or more, Form 8283 filing of noncash contributions of more than $500, qualified appraisals of noncash contributions of $5,000 or more and specialized rules on contributions of art (depending on amount and donee use).

ARIZONA ITEMS OF INTEREST

Maximum credits for various contributions reminder:
New Credit for 2008: Contributions to Military Family Relief Fund: Married taxpayers, $400, single taxpayers or heads of households, $200. **This credit expires in five years or as soon as $1 million in credits have been taken. Donations should be made to Arizona Department of Veterans Services and assist families of Arizonans injured or killed in the line of duty.**
Continuing Credits for 2008:
Contributions or fees paid to public schools: Married taxpayers, $400, single taxpayers or heads of households, $200.
Contributions made to school tuition organizations: Married taxpayers, $1,000, single taxpayers or heads of households, $500.
Contributions made to organizations that help the working poor: Married taxpayers, $400, single taxpayers or heads of households, $200.

YEAR END CHECKLIST

✓ If you have any capital gains or losses from sales of stock or other capital assets or you have stock or other capital assets that are ripe for sale, it may be advisable for us to meet to discuss how you can best coordinate timing your gains and losses to minimize tax on your gains and maximize the tax benefit from your losses.

✓ If you or a family member are thinking of selling appreciated stock or other capital assets, and the income won't be taxed at a rate higher than 15%, it may pay to sell in 2008. That way you may pay a zero tax on the gain.

✓ If you are thinking of making energy saving improvements to your home, such as putting in extra insulation or installing energy saving windows, consider delaying to 2009.

✓ If you are thinking of installing energy generating equipment such as solar electric panels or solar hot water heaters, credits are available for 2008, but if you will be spending more than $6,667 on solar electric property, the credit will be larger in 2009.

✓ Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2009 (other than a QPRI discussed previously), electing to deduct investment interest against capital gains, and disposing of a passive activity to allow you to deduct suspended losses.

✓ Consider using a credit card to prepay expenses that can generate deductions for this year.

✓ You may be able to save taxes this year and next year by applying a bunching strategy to miscellaneous itemized deductions, medical expenses and other itemized deductions.

✓ If you're thinking of donating a used auto to charity, you may want to inquire whether the charity plans to sell the car or use it in its charitable activities; the latter may yield a bigger deduction for you.

✓ IRA and Roth-IRA year-end moves. These include recharacterizing an IRA-to-Roth IRA conversion, coping with losses in a retirement account, withdrawing required minimum distributions before year-end to avoid a penalty.

✓ For taxpayers who become 70 ½ in 2008, maybe delaying the first required minimum distribution to 4/1/09 in order to possibly avoid the need to sell investments at an economic loss in 2008. This may provide the retirement accounts a chance to recover value, but this decision must be weighed against the resulting bunching of income in 2009 when the 2008 and 2009 required minimum distributions must be made.

✓ You can give $12,000 in 2008 to an unlimited number of individuals. This can save gift and estate taxes.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you. We hope this information is helpful. If you would like more details about these or any other aspect of this newsletter, please do not hesitate to call.

GENERAL ANNOUNCEMENTS

We accept credit card payments (Visa, Mastercard and American Express). We can accommodate recurring charges as well.